AR71

1999 ANNUAL REPORT

COMMUNICATING OUR FUTURE

ENSEL CORPORATION

CORPORATE PROFILE

Ensel Corporation is a communications company providing new products and services to the major telephone and interconnect companies in the Canadian and Carribean market place.

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Winspear Business Reference Library
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"Our mission has never been clearer. Our twin goals are a return to positive earnings and a return to value for our shareholders".

Fiscal 1999 was very much a rebuilding year in which your Company refocused its energies and returned to the basic principles that will help us to realize our potential. In many respects, it was the most difficult year we have ever encountered. It started with great promise, became a minefield in the middle due to the challenges of one of our operating divisions, and ended with what we believe is a harbinger of great promise for the future.

At the conclusion of our last fiscal year, we had retired nearly all of our long-term debt and were approaching what we believed would be our best earnings year since the Company was founded. As you will see in reading this report, the scale division ran into difficulties almost immediately, and before the end of the second quarter it became apparent that our communications division was also entering a period of declining sales and shrinking margins. Despite our aggressive and early response, the scale division in particular suffered through the worst year in its immediate history. In our return to basic business principles, we made extensive changes to both operating personnel and procedures. While we are confident that the Precision Giant Group has begun to recover, much work remains. I urge you to read the management comments on the Precision Giant Group in the Operations Review section, as they demonstrate the commitment to quality and profitability at all levels of the division.

Palco Telecom also experienced some difficulties early in the year, however this was addressed through immediate significant changes in personnel, and this division finished the year on target for sales but below target in earnings. Palco continues to grow at a record rate, and we are certain that they will be an outstanding performer in fiscal 1999/2000.

At year-end, realizing that your Company would be reporting a loss, both management and your Board of Directors decided to clean up our balance sheet. Accordingly, we have written off the total value of the Portable Audio Link (PAL) inventory and development costs. These write-offs are significant, however they place your Company on a firm financial basis. On balance, we believe this is the best course of action for our long-range growth plans.

LOOKING AHEAD

The question now is one of recovery, reflected in both a return to positive earnings and a return to value for our shareholders. Our mission has never been clearer. As this report is being written, I am pleased to report that the first quarter of the new fiscal year will be our best performance of the last five quarters. Palco Telecom is currently growing at a rate of 30 percent with margins intact, and while sales in the scale division are lower than last year, operating costs are significantly reduced, and margins have increased. The management group is now approaching their own operating costs with the same vigor that we have demonstrated in the operating subsidiaries, and we expect to report substantial improvement in this area also.

"Our telephone division, which has new products and services coming on-line, will lead our return to profitability".

CORPORATE GOALS AND STRATEGIES

After assessing our fiscal 1999 performance, the Ensel management team set a number of goals for this year, together with a sound strategy to ensure success in attaining them. These goals include:

1. Be profitable in fiscal 2000
2. Increase revenues by 25 percent
3. Closely monitor each operating division, while ensuring that managers have short and long term goals in place
4. Monitor financial results weekly for both operating divisions
5. Implement bonus plans tied to performance and profitability in both operating divisions.

For the longer term, I have never been more confident of the Company's future. Our telephone division has additional new products and services coming on-line, reflecting the work of a new and enthusiastic sales team, led by a substantially revamped management group. We are currently seeking a new marketing manager for Palco who will help to identify other acquisitions targets in the communications field and additional target markets for our existing products and services.

At the same time, Ensel is holding talks with engineering firms with the plan of forming a strategic alliance. This alliance would be for the sole purpose of developing new communication products we can distribute through out network. In addition we are looking to add a new director to our Board, one with a technology background. We head into the future and the new millennium with tremendous energy and enthusiasm.

We thank our Board of Directors for their guidance through the turbulence of fiscal 1999 and our shareholders for their loyalty and patience.

On behalf of the Board of Directors,

John C. Fraser
President and Chief Executive Officer
November 2, 1999

PALCO TELECOM INC.

During fiscal 1999, Palco strengthened its reputation as one of North America's top suppliers of quality products and services. We made considerable progress toward developing stronger relationships between Palco and both its suppliers and customers. As a result, our customers are more interested in negotiating long-term agreements with Palco, while looking to us for help in problem solving and to provide new items in addition to our existing products and services. As well, suppliers are offering us new product lines for distribution.

In the months ahead, we will continue to foster relationships with visits by senior managers to our major customers, including Telus in British Columbia and Alberta, Bell Canada, Cable and Wireless business units in Barbados, Cayman Islands, as well as Antigua Public Utilities and Puerto Rico Telephone Company. In addition, we will expand our relationships with our major suppliers such as Teledex, ADCO, Fans Telecom, Protel and Alpha.

Palco had high expectations for the Motorola repair centre. However, fiscal 1999 proved to be a low volume year with little or no projected increase. This area has subsequently been closed and all inventories and tooling have been sold.

During the past year, Palco also went through a period of significant change, including the hiring of a new sales manager and the subsequent complete changeover in staffing and distribution of customer accounts. Although sales did not meet forecasts, the reorganization of the sales personnel resulted in a strong recovery in the fourth quarter, with total year sales exceeding those of the previous year.

On a second positive note, Palco has implemented a Cost Analysis Program and Process Improvement Program. Cost analysis has been done on the majority of the refurbishing processes and as a result, we are now pricing our services using more realistic loaded labor rates. This will allow Palco to be more competitive in the international market, while maintaining industry standard profit margins. The Process Improvement Program was launched late in fiscal 1999 and will continue throughout the current fiscal year. This includes flow charting all our processes and looking for areas in which to improve. A start will also be made towards achieving ISO9000 certification.

The next fiscal year represents unlimited opportunity for growth in both the refurbishing sector as well as in sales of new products. A major long-term agreement is currently being written with a Caribbean telco for refurbishing services, while similar long-term agreements are being reviewed by several other Caribbean telcos. In addition, discussions are being held with a large telephone provider in the United States to provide repair and assembly services. These moves, coupled with an anticipated increase in Canadian telco repair requirements, could see our production area double in size.

We anticipate that sales of new products will increase at a dramatic rate this year, due to a number of initiatives. First, we have formalized our distribution relationship with Protel, a U.S.-based manufacturer of payphones. We believe that despite a large amount of negative press over the deregulation of paystations, Palco will be able to develop and implement a strong program for the provisioning of payphones to the private sector.

PALCO TELECOM GOALS

1. Implement e-commerce program, putting Palco on-line with select Caribbean customers
2. Grow sales and service revenues by 30 percent over fiscal 1999
3. Double production area to handle new orders
4. Become the largest provider of payphones to the new Independent Payphone Provider (IPP) market in Canada
5. Complete POTS phone positioning in Caribbean by Spring, 2000

This, coupled with our ability to provide a complete package to independent paystation providers, will make Palco a major player in this field. Complete packages would include a payphone, phone booth or enclosure, prepaid cards and dispensers, and management software.

Second, the introduction of Teledex' Consumer Products division and their association with Palco will facilitate our growth as a serious provider of consumer products to the telcos, interconnects and small retailers. These products include Caller ID adjunct boxes, Caller ID telephones, cordless telephones and telephones with answering machines. Palco has acquired the distribution rights for these products for both the Canadian and Caribbean markets as well as Bermuda.

Teledex Corporation also has developed a wider product line for the hospitality industry and continues to work as our partner in developing our customer base. This product line has enabled us to make significant sales to large customers such as Bell Canada.

In fiscal 2000, we anticipate that most Caribbean telcos will decide whether to purchase POTS (Plain Old Telephone) telephones and there is strong possibility that Palco will succeed in its efforts to bring its own model of telephone to this large market. Some sales have been made to date with positive results. This enhances our credibility as a serious provider of quality telephone sets, which are distinguishable from other comparable units because of their unique built-in features.

The last few years have seen the ratio of refurbishing work versus new sales decrease to approximately 30 percent. We feel that this is a good level and provides us the capability to offer support to all the new products that we sell. It also distinguishes us from other suppliers and gives us an edge on our competition. We intend to maintain this ratio at its current level.

Palco approaches the new millennium confident that last year's restructuring will help to position us as a major supplier of quality products and services. We intend to establish new alliances with both customers and suppliers, while expanding our portfolio of products and services.

PRECISION GIANT SYSTEMS GOALS

1. Achieve ISO 9002 certification and Weights and Measures Accreditation by spring 2000 (Precision Giant would be first scale company in Canada to do so.)
2. Standardize service in Alberta
3. Attain highest quality service department in Alberta
4. Establish "OnlyWeigh" software sales and support group throughout Western North America

PRECISION GIANT SYSTEMS INC.

Despite our high expectations for fiscal 1999, fueled in part by our strong growth the previous year, a series of events prevented the Precision Giant Group from achieving its goals. First, orders for large truck scales did not materialize and second, our reaction to this was neither swift nor aggressive because the economy was strong and the demand for sales quotes remained high.

At the same time, the very successful areas within Precision Scale prevented us from recognizing that a major shift was taking place in our sales base. There was a dramatic 10-fold increase in the sale of computer hardware and software over the previous year, due in part to a major sale of computer software to Alberta Infrastructure formerly Alberta Transportation and Utilities. Although this provided steady sales figures, it had no impact on our under utilized fabrication department.

For a number of different reasons, it was also an extremely difficult year at Giant scale. While sales were relatively strong in the early part of the year, the weakness in the service department had a negative impact on margins. Because costs were a key factor, a number of steps were taken. These included amalgamating the fabrication departments of Giant Scale and Precision Scale in February 1999, changes to senior management at Giant Scale in March 1999 and the reconstruction of Giant Scale over a period of several months. We now have a Calgary Manager who brings years of scale service experience and a strong commitment to profit-generation.Finally, a decision was made to amalgamate the two companies on July 1, 1999 under the name Precision Giant Systems Inc.

The new name reflects not only the amalgamation of the two companies within the weighing division but also the technical direction of the new company. Our software is well established and sales continue to be strong in several new applications. A major initiative is also underway to further strengthen our position in the market in other areas. During the next few years the duties of Weights and Measures will be privatized. Weights and Measures is the weighing division of Industry Canada, the federal government department responsible for certifying all "Legal For Trade" scales in the country. In addition, Precision Giant has started the process of ISO 9002 certification that will lead to Weights and Measures Accreditation in the coming year. Weights and Measures have served notice they are withdrawing the "inspection of scales" service they provide in Canada. This move is part of the federal governments downsizing efforts. This role of inspecting the scales will be turned over to private industry as companies become accredited.

The whole of the weighing division has undergone major changes in the past year in order to bring costs into line with revenues. This is an ongoing process that will continue in 2000.

"The executive team has focused on assessing the Company's assets and creating a strategic plan for success in the new millennium".

The past year has been extremely difficult with change being the sole constant. Your executive team focused on assessing the Company's assets and formulating a strategic plan that will take Ensel into the next millennium. Part of our strategic plan involves finding and concluding acquisitions that will generate profits through new products, expanding and adding new markets for our existing products and services, and deepening relationships with our customers in Canada and internationally.

Our telecommunication business has the potential for outstanding profitable growth. Palco Telecom Inc. is continually examining opportunities to grow the business while limiting the level of risk. We recognize that some ventures will achieve a high degree of operational and financial success while others will require a technical learning process with longer-term financial impact. As a result of an internal focus on positive growth, Palco decided to discontinue any further development and marketing of the PAL product. This resulted in a write down of all the associated intangible assets and inventory of approximately $230,000. We have taken a conservative approach on this action and any financial recovery will be recorded in subsequent periods.

Palco also underwent organizational changes that resulted in further costs of $200,000. We believe these measures position Palco for significantly improved financial performance.

Our weights and measures systems division failed to meet operational targets during the year. As a result, a major restructuring program was implemented in order to drastically reduce overhead while improving productivity and overall efficiencies. On June 30,1999 Giant Scale Company Ltd. was amalgamated with its sister company, Precision Scale Inc., to create Precision Giant Systems Inc. We believe these moves will provide a strong platform for future profitable growth.

Ensel will continue to address and examine various options to strengthen our balance sheet. To that end, the management team is committed to eliminating the working capital deficit during fiscal 2000.

Ensel is nearing completion of its Year 2000 compliance process. New computer hardware and operating systems have been purchased and implemented at head office and in each operating division. As well, Ensel made further progress during the fiscal year toward enhancing our management information systems. Our management team will now have access to up-to-date information to help grow revenues, increase profitability, satisfy customer needs, and in general be more innovative and productive.

We have put the basic resources and strategy in place and will continue to pursue a business course that we believe will add value for our shareholders, customers and employees.

Albert W. Corbett
Senior Vice President and Chief Financial Officer
November 2, 1999

TO THE SHAREHOLDERS OF ENSEL CORPORATION

We have audited the consolidated balance sheets of Ensel Corporation as at June 30, 1999 and 1998 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at June 30, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

October 8, 1999

CONSOLIDATED BALANCE SHEET

As at June 30	**1999**	1998
ASSETS		
Current assets		
Cash	**37,579**	113,691
Short-term investments	**6,240**	8,000
Accounts receivable	**1,319,303**	1,659,094
Inventories (note 4)	**1,115,270**	1,078,115
Prepaid expenses	**21,155**	36,212
Deferred development costs	**-**	14,162
	2,499,547	2,909,274
Capital assets (note 5)	**637,462**	823,197
Other assets		
Intangible assets (note 6)	**1,463,412**	1,731,352
	4,600,421	5,463,823
LIABILITIES		
Current liabilities		
Bank indebtedness (note 7)	**1,165,972**	1,203,108
Accounts payable and accrued liabilities	**1,304,978**	1,244,832
Deferred revenue	**3,849**	56,359
Current portion of long-term debt (note 8)	**232,577**	148,749
	2,707,376	2,653,048
Long-term debt (note 8)	**197,413**	331,559
Future income taxes (note 3)	**-**	60,005
	2,904,789	3,044,612
SHAREHOLDERS' EQUITY		
Capital stock (note 9)	**4,653,388**	4,705,669
Contributed surplus	**20,204**	-
Deficit	**(2,977,960)**	(2,286,458)
	1,695,632	2,419,211
	4,600,421	5,463,823

Contingencies and commitments (notes 1, 9, 11, 12 and 14)

Approved by the Board of Directors

Director **Director**

CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT

Year Ended June 30	1999	1998
Revenue		
Sales and service	$ 8,688,666	$ 8,602,306
Cost of sales	6,150,174	5,627,490
Gross profit	2,538,492	2,974,816
Expenses		
Selling and administration	2,622,367	2,617,709
Amortization	292,239	576,849
Write down of intangible assets and inventory	231,633	-
Interest on long-term debt	136,511	100,173
Loss on sale of capital assets	7,249	13,203
	3,289,999	3,307,934
Net loss for the year	(751,507)	(333,118)
Deficit - Beginning of year		
As previously reported	(2,286,458)	(1,953,340)
Effect of adoption of liability method of recording income taxes (note 3)	60,005	-
As restated	(2,226,453)	(1,953,340)
Deficit - End of year	(2,977,960)	(2,286,458)
Basic loss per share	(0.054)	(0.026)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended June 30	1999	1998
Cash provided by (used in)		
Operating activities		
Net loss for the year	**(751,507)**	(333,118)
Items not affecting cash		
Amortization	**292,239**	576,849
Amortization of deferred financing charges	**-**	19,288
Loss on sale of capital assets	**7,249**	13,203
Write down of intangible assets and inventory	**231,633**	-
	(220,386)	276,222
Net change in investments	**1,760**	-
Net change in accounts receivable	**339,791**	(255,618)
Net change in inventories	**(37,155)**	(90,376)
Net change in prepaid expenses	**15,057**	(1,779)
Net change in deferred development costs	**14,162**	(14,162)
Net change in accounts payable and accrued liabilities	**60,146**	(191,928)
Net change in deferred revenue	**(52,510)**	(42,557)
	120,865	(320,198)
Investing activities		
Purchase of intangible asset	**(2,625)**	(44,129)
Purchase of capital assets	**(94,474)**	(313,921)
Proceeds on disposal of capital assets	**19,653**	8,957
	(77,446)	(349,093)
Financing activities		
Proceeds on issuance of shares	**-**	332,100
Share redemption	**(32,077)**	(8,500)
Long-term debt issued	**100,000**	333,503
Long-term debt repayment	**(150,318)**	(631,750)
	(82,395)	25,353
Decrease in cash for the year	**(38,976)**	(643,938)
Deficiency - Beginning of year	**(1,089,417)**	(445,479)
Deficiency - End of year	**(1,128,393)**	(1,089,417)
Deficiency is represented by		
Cash	**37,579**	113,691
Bank indebtedness (note 7)	**(1,165,972)**	(1,203,108)
	(1,128,393)	(1,089,417)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 BASIS OF PRESENTATION AND FUTURE OPERATIONS

The consolidated financial statements of Ensel Corporation ("Ensel") have been prepared on the basis that Ensel will continue as a going concern, which implies that the company and its subsidiaries will be able to pay their current liabilities as they come due. Its ability to do so is dependent on the continued support of its major shareholders and debenture holder. In addition, as a result of the violation of the covenants related to the long-term debt (note 6 and note 13), one of the subsidiaries will need to either maintain its financing with its current financial institution or obtain new financing from a different financial institution. If the support of the major shareholders or debenture holder is discontinued or the subsidiary is not able to maintain or obtain new financing, the assets shown on the consolidated balance sheet may be realized and its liabilities extinguished at values different than those stated in the consolidated balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of:

a) Ensel and its direct wholly owned subsidiaries, Palco Telecom Inc., Precision Scale Inc. and Giant Scale Company Ltd., collectively "the company".

b) Ensel owns 100% of the voting shares of Maui Court Subsidiary Ltd., Riverfront Court Subsidiary Ltd., Riverfront Court (II) Subsidiary Ltd., San-Cal Investments Subsidiary Ltd. and San-Cal Investments (II) Subsidiary Ltd. ("the non-controlled entities"). These subsidiaries have not been consolidated as Ensel's interests are subject to an agreement whereby Ensel gives up all economic benefit accruing from these subsidiaries other than the right to earn a commission or fee income in relation to these offerings and has agreed to elect as directors, individuals unrelated to Ensel.

All significant intercompany accounts and transactions have been eliminated.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Some of the inventories are maintained for repair services and may not be used within the next year.

Capital assets

Capital assets are recorded at cost are being amortization over their estimated useful lives as follows:

Automotive equipment	30% declining balance
Computer equipment	30% declining balance
Shop and office equipment	20% declining balance
Leasehold improvements	Straight-line over the term of the lease

Intangible assets

Intangible assets are recorded at cost and are being amortized on a straight-line basis over 15 or 20 years. Goodwill is assessed for impairment annually. The earnings pattern of subsidiaries are used to annually assess the carrying value of the goodwill. The majority of the goodwill recorded is from the acquisition of Palco Telecom Inc., in September 1993.

Future income taxes

The company follows the liability method of accounting for income taxes. Under this method, future income tax liabilities and assets are recognized for the estimated income tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis. Future income tax liabilities and assets are measured using enacted tax rates. The effect on future income tax liabilities and assets of a change in tax rates is recognized in income in the period that the change occurs.

Previously, the company followed the tax allocation method of accounting for corporate income taxes whereby deferred taxes are provided to the extent that current taxes have been reduced by claiming amounts in excess of the related amount recorded in the financial statements.

Foreign exchange

Transactions denominated in a currency other than Canadian dollars are translated to Canadian dollars by applying exchange rates in effect at the transaction date. At year end, monetary assets and liabilities using the exchange rate at that date. Any resulting foreign exchange gains or losses are included in the statements of operations in the current period.

3 EFFECT OF ADOPTION OF LIABILITY METHOD OF RECORDING INCOME TAXES

During the year, the company adopted the liability method of recording future income taxes. The effect have been recorded through opening deficit and reduced the future income taxes payable to $Nil.

4 INVENTORIES

	1999	1998
Telecommunications		
Parts	**$ 417,168**	$ 245,815
Finished goods	**521,276**	519,900
	938,444	765,715
Weights and measures		
Parts	**45,572**	30,947
Work-in-progress	**14,679**	76,434
Finished goods	**116,575**	205,019
	176,826	312,400
	$ 1,115,270	$ 1,078,115

5 CAPITAL ASSETS

			1999	1998
	Cost	Accumulated amortization	Net	Net
Automotive equipment	**$ 440,080**	**$ 258,417**	**$ 181,663**	$ 151,589
Computer equipment	**291,279**	**213,677**	**77,602**	105,778
Equipment held for lease	**283,104**	**120,130**	**162,974**	190,394
Shop and office equipment	**1,429,077**	**1,237,224**	**191,853**	356,757
Leasehold improvements	**80,831**	**57,461**	**23,370**	18,679
	$ 2,524,371	**$ 1,886,909**	**$ 637,462**	$ 823,197

6 INTANGIBLE ASSETS

	1999	1998
Goodwill, net of accumulated amortization of $1,281,588 (1998 - $1,094,744)	**$ 1,459,047**	$ 1,645,891
Other - net of accumulated amortization of $102,191 (1998 - $18,470)	**4,365**	85,461
	$ 1,463,412	$ 1,731,352

7 BANK INDEBTEDNESS

	1999	1998
Cheques issued in excess of cash balance.	**$ 341,410**	$ 131,613
Revolving loan with interest at prime plus 1.25%, collateralized by a guarantee over insurance proceeds and a general security agreement, covering all assets of the company.	**529,562**	661,495
Line of credit, bearing interest at bank prime plus 2% per annum, collateralized by a general assignment of book debts, inventory and fixed assets and an assignment and postponement of creditors' claims.	**230,000**	260,000
Line of credit, bearing interest at bank prime plus 2% per annum, collateralized by assignment of inventory and accounts receivable.	**65,000**	150,000
	$ 1,165,972	$ 1,203,108

8 LONG-TERM DEBT

	1999	1998
Demand loan repayable in monthly payments of $1,773, plus interest at 8.5% per annum.	**$ -**	$ 3,498
Debenture repayable in two equal payments of $150,000 plus interest calculated at 10%, per annum on July 1, 1999 and July 1, 2000. The debenture is collateralized by certain assets held by Ensel Corporation. This debenture was subsequently refinanced (see note 15).	**300,000**	200,000
Term loan due on demand, repayable January 2001 with interest at 8.5%, collateralized by a general security agreement covering all assets of the company, repayable with blended monthly payments of $1,516. The company is in violation of its covenants related to any term loan and as such the entire balance is classified as current.	**26,615**	41,817
Term loan repayable in monthly payments of $593 which includes principal and interest calculated at 6.5%.	**22,657**	28,104
Term bank loans repayable at an aggregate of $1,776 per month, including interest at 5.25% per annum, due February 13, 2002. Collateralized by various motor vehicles.	**49,671**	69,497
Equipment loan, due on demand, repayable October 31, 1999 with interest at prime plus 1.75%. Collateralized by a guarantee of Ensel, insurance proceeds and a general security agreement covering all assets of the subsidiary, Palco Telecom Inc., repayable with blended monthly payments of $4,210.	**16,692**	63,582
Promissory notes issued on acquisition of Giant Scale Company Ltd. repayable in monthly installments of $1,333, with interest applied at prime plus 2% per annum.	**14,355**	30,517
Term bank loan repayable at $4,936 monthly, including interest at 9.875% per annum, due April 16, 1999. Collateralized by a general assignment of book debts, inventory and capital assets and an assignment of postponement of creditors claims.	**-**	43,293
	429,990	480,308
Less: Current portion	**(232,577)**	(148,749)
	$ 197,413	$ 331,559

The principal payments required over the next five years are as follows:

	1999	1998
2000	$ 232,577	$ 148,749
2001	176,330	171,410
2002	17,056	134,404
2003	4,027	21,846
2004	-	3,898
	$ 429,990	$ 480,307

9 CAPITAL STOCK

Capital stock may be summarized as follows:

	Number of shares	Amount
Issued at June 30, 1997	11,794,442	$ 4,381,569
Issued during the year	1,107,000	332,100
Shares redeemed during the year	(31,500)	(8,500)
Issued at June 30, 1998	12,869,942	4,705,169
Shares redeemed during the year	(143,000)	(52,281)
Issued at June 30, 1999	12,726,942	$ 4,652,888

Directors and management have options to purchase 850,000 common shares at $0.15 per share that expire between November 30, 1999 and February 23, 2004.

Ensel had a normal course issuer bid arrangement in place from April 15, 1998 to March 31, 1999, and currently from May 3, 1999 to April 30, 2000, to purchase up to 600,000 of its issued and outstanding common shares. The excess of book value over purchase price has been charged to contributed surplus.

10 INCOME TAXES

a) Reconciliation of the income tax provision

The income tax expense recorded in the statement of operations differs from the amount that would be expected using the statutory rate as follows:

	1999	1998
Net loss	$ (751,507)	$ (333,118)
Expected income tax (recovery)	(335,332)	(148,571)
Add (deduct)		
Amortization of assets with no tax basis	45,668	67,550
Non-deductible expenses	18,523	-
Loss carried forward unrecognized	$ 271,141	$ 81,021
	$ -	-

b) Loss carry forwards

The company has approximately $25,000 of net capital losses that can be carried forward indefinitely, and approximately $650,000 of non-capital losses. The deductibility of the loss carry forwards is subject to acceptance by taxing authorities.

11 COMMITMENTS

Under the terms of various property and equipment operating leases and employee consulting arrangements, the company is committed to make minimum monthly payments totalling the following annual amounts:

2000	$ 212,511
2001	181,313
2002	85,891
2003	10,027
	$ 489,742

12 SEGMENTED INFORMATION

The company's business operations are grouped into the following segments:

1999	Weights & measures	Communications	Corporate	Consolidated
Revenue	**$ 2,922,506**	**$ 5,766,134**	**$ 26**	**$ 8,688,666**
Operating income (loss)	**(110,617)**	**(75,953)**	**(564,937)**	**(751,507)**
Identifiable assets	**1,161,911**	**3,343,969**	**94,541**	**4,600,421**
Amortization	**104,620**	**333,853**	**85,399**	**523,872**
Capital expenditures	**34,432**	**58,549**	**1,493**	**94,474**

1998	Weights & measures	Communications	Corporate	Consolidated
Revenue	$ 3,270,785	$ 5,295,421	$ 36,100	$ 8,602,306
Operating income (loss)	49,689	125,668	(508,475)	(333,118)
Identifiable assets	1,611,124	3,729,878	122,821	5,463,823
Amortization	84,513	401,131	91,205	576,849
Capital expenditures	194,739	113,978	5,204	313,921

13 CONTINGENCY

Two lawsuits have been filed over the cessation of operations of the non-controlled entities referred to in note 2. The company has been named along with a number of unrelated companies, individuals and partnerships. A third lawsuit was filed over the cessation of operations of a subsidiary in 1994. The total amounts claimed in these suits are $1,152,000.

Management and legal counsel believe the lawsuits to be without merit, and that no additional provision is required in these financial statements.

14 FINANCIAL INSTRUMENTS

The company's financial instruments recognized in the balance sheet consists of cash, short-term investments, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and long-term debt.

Short-term financial assets and liabilities are valued at their carrying amounts as presented in the balance sheet, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments.

Interest rate risk

The company has several loans and as such, interest rate risk does exit, however, as the long-term debt outstanding is small, relative to the current debt, this risk is regarded as low, particularly as the majority of interest rates are fixed over the term of the loan. The capital loan is subject to interest at prime plus 1.75%, however, this is repayable October 31, 1999 hence the directors regard the risk as low.

The company's exposure to interest rate risk lies in its bank indebtedness, where interest is calculated at prime plus 1.25% to 2.0% per annum. The prime interest rate is subject to change.

Credit risk

The company's client portfolio consists substantially of large multinational companies and are subject to normal industry credit risks.

15 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

16 SUBSEQUENT EVENTS

a) After the close of business on June 30, 1999, Giant Scale Company Ltd. was amalgamated with a sister company, Precision Scale Inc., to create Precision Giant Systems Inc.

   The financial statements of Precision Giant Systems Inc. continue to not meet debt covenants imposed by current financing arrangements. This may impair the ability to continue with current bank financing arrangements.

b) On August 9, 1999, the company entered into a supplemental debenture to replace the debenture discussed in note 7. The supplemental debenture increases the amount loaned to $450,000 at the same rate of interest with one lump sum payment on January 16, 2000.

CORPORATE INFORMATION

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ANNUAL MEETING
The annual general meeting of shareholders will be held at 10:00 a.m. on December 20, 1999 at the offices of Miller Thomson at Suite 3000, 700 - 9 Avenue S.W., Calgary, Alberta.

OFFICERS
John C. Fraser
President and Chief Executive Officer

Albert W. Corbett C.A.
Senior Vice President and Chief Financial Officer

W. Gerald Gunn
Senior Vice President

BOARD OF DIRECTORS
Ray Anthony C.A.
Independent Businessman

Albert Corbett C.A.
Senior Vice President & C.F.O.

John C. Fraser
President & C.E.O.

David Hardy
President, Franvest Capital Partners Inc.

Andrew Hyslop
Chairman, Merbanko Capital Inc.

John Peters
Barrister & Solicitor, Miller Thompson

Richard Shillington
President, R.M. Shillington Investments

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